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UNIVERSAL SECTIONS LIMITED

Annual Report 1974

CORPORATE ORGANIZATION

BOARD OF DIRECTORS	Maurice Fagan, B.A., LL.B. Gerry Rousseau K. G. R. Gwynne-Timothy, Q.C. John Burchynsky John Bossons, Ph.D. Richard J. Chopping, C.A. Henry Fagan	
PRESIDENT	Maurice Fagan, B.A., LL.B.	
VICE-PRESIDENTS	Finance	S. Meek, C.A.
	Ontario	W. Smart
	Eastern Canada	G. Rousseau
	Western Canada	J. Burchynsky
	U.S.A.	L. Greedy
	Marketing	H. McKay
SECRETARY	K. G. R. Gwynne-Timothy, Q.C.	
DIVISIONAL MANAGERS	Ottawa	J. Connolly
	Calgary	D. Koyich
	Steel Door Frames	R. Wolosianski
	Folding Doors	W. Runka

BANK	The Canadian Imperial Bank of Commerce
TRUSTEE	5 Year Debenture-Guaranty Trust Company of Canada
TRANSFER AGENT AND REGISTRAR	Canada Permanent Trust Company
AUDITORS	Thorne Riddell & Co.
COMMON SHARES	Listed, Toronto Stock Exchange
HEAD OFFICE	60 Esna Park Drive Markham, Ontario

PRESIDENT'S REPORT TO THE SHAREHOLDERS

During the fiscal year ending March 31st, 1974, many unusual things have happened. An acute shortage of raw and manufactured goods developed in the world resulting partially from the huge increase in demand by an affluent world and partially from the reticence by major companies to expand capacity after the 1969 recession. The oil crisis further lowered the level of production keeping goods from a world already hungry for materials. Those events changed the priorities of management. Efforts were directed primarily at purchasing of goods required for production and selling became of secondary importance. It is under those conditions that the Management of your Company concentrated its efforts to the manufacturing part of the business. The Company's solid relationship with its suppliers enabled it to continue operating at a very satisfactory level and indeed resulted in a very respectable growth of production. Although we expect the shortages, especially in steel supplies, to continue for the rest of the decade, we look forward to and feel confident of continued growth.

HIGHLIGHTS OF EVENTS

Rothwell-Perrin Limited continued at a loss. Its operations were outside the usual business of your Company and it was decided to have them discontinued. This is reflected in the statement and resulted in a non-recurring loss of $150,995 and an extraordinary debit item of $124,000.

— The fifty per cent owned companies this year showed a $56,099 loss as against a $100,913 gain in 1973. This was mainly due to the oil crisis which created an acute shortage of polystyrene and resulted in the halt of sale of licenses by Foam-Form Canada Limited and the opening of new plants as Foam-Form could not guarantee a supply of raw material. There is no longer any shortage and there has been active renewal of sale of licenses and opening of new plants.

— Universal Sections Limited and all its wholly owned subsidiaries, apart from the above, have enjoyed an extremely buoyant and satisfactory year resulting in growth of sales and profits. Sales after elimination of Rothwell-Perrin were $25,269,567 as against $21,762,823 in 1973, an increase of some 16 per cent. Profits from those sales after taxes were $653,392 as compared with $433,188 from 1973 or an increase of 51 per cent. It is apparent from those figures that profit margins have increased considerably. The earnings per share on those operations were $1.40 as compared with 94¢ in 1973.

— The cash position was strengthened by the financing of $1,300,000 with Guaranty Trust. Working capital has dramatically increased to $2,516,584 from $360,078 in 1973. This increase is a result of the financing together with the favourable cash flow from the Company's operations. This solid financial base will ensure the Company of good support from its suppliers and enables it to confidently handle increased volume.

Demand for the Company's products remains very strong. There is a greater backlog of business than ever before. The inventory position is good and the margins of profits are on the increase due to the greater efficiencies that were developed in the last two years.

I again wish to thank the Management, Staff and Employees of the Company for their very excellent efforts this year.

On behalf of the
Board of Directors,

M Fagan

Maurice Fagan, President.
July 19, 1974.

CONSOLIDATED STATEMENT OF INCOME

Year Ended March 31, 1974 (with comparative figures for 1973)

	1974	1973 (as reclassified note 1)
Sales	$25,269,567	$21,762,823
Cost of sales and expenses other than undernoted items	23,200,795	20,365,136
	2,068,772	1,397,687
Depreciation and amortization	449,561	337,138
Interest on long-term debt	79,265	68,470
Other interest expense	340,854	176,635
	869,680	582,243
Income from continuing operations before the undernoted items	1,199,092	815,444
Income taxes		
Current	454,700	318,756
Deferred	91,000	63,500
	545,700	382,256
Income from continuing operations before equity in 50% owned companies	653,392	433,188
Equity in income (loss) before extraordinary item of 50% owned companies	(56,099)	100,913
Income from continuing operations	597,293	534,101
Loss from discontinued operations before extraordinary item related thereto (note 1)	150,995	147,838
Income before extraordinary items	446,298	386,263
Extraordinary items		
Elimination of the tax effect of prior year's loss of discontinued subsidiary (note 1)	(124,000)	
Gain on sale of fixed assets and property option less current income taxes of $2,163	48,247	
Income tax reduction realized on loss carry forwards:		
Subsidiary companies	41,800	69,334
50% Owned companies		63,000
	(33,953)	132,334
Net income for the year	$ 412,345	$ 518,597
Earnings per share (note 10)		
Income from continuing operations before equity in 50% owned companies	$ 1.40	$ .94
Income from continuing operations	$ 1.28	$ 1.16
Income before extraordinary items	$ .95	$ .84
Net income for the year	$ .88	$ 1.12

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year Ended March 31, 1974
(with comparative figures for 1973)

	1974	1973
Balance at beginning of year	$2,273,486	$1,754,889
Net income for the year	412,345	518,597
Balance at end of year	$2,685,831	$2,273,486

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended March 31, 1974
(with comparative figures for 1973)

	1974	1973 (as reclassified note 1)
Source of funds		
Operations		
Net income for the year	$ 412,345	$ 518,597
Loss from discontinued operations	274,995	147,838
Income from continuing operations, including extraordinary items	687,340	666,435
Items not involving current funds		
Depreciation and amortization	449,561	337,138
Deferred income taxes	91,000	63,500
Equity in (income) loss of 50% owned companies	56,099	(163,913)
	1,284,000	903,160
Issue of capital stock	6,424	42,259
Debenture payable	1,300,000	
Increase in other long-term debt	250,449	41,207
Sale of fixed assets	71,941	17,221
Sale of licence		75,000
Decrease in advances to 50% owned companies		292,806
Decrease in licence fees receivable	84,000	
Decrease in debenture receivable	60,000	
Working capital increase (decrease) less operating losses of discontinued operation (note 1)	66,333	(240,738)
	3,123,147	1,130,915
Application of funds		
Additions to fixed assets	470,636	396,411
Licence fees receivable		336,000
Increase in deferred charges	52,203	9,744
Decrease in non-current portion of long-term debt	176,058	138,874
Increase in investment in and advances to 50% owned companies	145,777	
Debenture receivable		125,651
Increase in mortgages receivable	121,000	
Increase in other receivables		79,301
Other	967	58,938
	966,641	1,144,919
Increase (decrease) in working capital	2,156,506	(14,004)
Working capital at beginning of year	360,078	374,082
Working capital at end of year	$2,516,584	$ 360,078

CONSOLIDATED BALANCE SHEET — MARCH 31, 1974

(with comparative figures at March 31, 1973)

ASSETS	1974	1973
Current Assets		
Due from debenture financing (note 9)	$ 1,300,000	
Accounts receivable (note 2)	5,903,125	$ 5,616,700
Inventories (note 3)	4,393,537	3,402,563
Prepaid expenses	100,105	88,875
	11,696,767	9,108,138
Investments		
Interest in 50% owned companies (note 4)	339,709	175,031
Licence fees receivable (note 4)	252,000	336,000
Debenture and mortgages receivable	189,986	125,651
	781,695	636,682
Fixed Assets (note 5)		
Land, buildings and equipment, at cost	4,432,638	4,801,518
Less accumulated depreciation	2,630,166	2,799,355
	1,802,472	2,002,163
Other Assets and Deferred Charges		
Deferred charges, less amortization	99,075	221,993
Patents and licences, at cost less amortization (note 6)	54,771	55,115
Other receivables		184,499
Excess of cost over book value at dates of acquiring shares of subsidiaries	442,326	442,326
Goodwill	85,000	85,000
	681,172	988,933
	$14,962,106	$12,735,916

Approved by the Board

Maurice Fagan, Director

John Bossons, Director

LIABILITIES	1974	1973
Current Liabilities		
Bank advances (note 7)	$ 4,215,830	$ 3,643,654
Accounts payable and accrued liabilities (note 8)	4,030,918	4,589,976
Income and other taxes payable	708,069	344,075
Notes payable	43,472	49,700
Principal due within one year on long-term debt	181,894	120,655
	9,180,183	8,748,060
Long-Term Debt (note 9)	1,969,573	735,182
Deferred Income Taxes	490,300	275,300
Interest of Minority Preference Shareholders in Subsidiary Company		74,093

SHAREHOLDERS' EQUITY

Capital Stock (note 10)		
Authorized — 600,000 shares without par value		
Issued — 467,901 shares (1973, 467,030 shares)	636,219	629,795
Retained Earnings	2,685,831	2,273,486
	3,322,050	2,903,281
	$14,962,106	$12,735,916

Contingent liabilities (note 11)
Long-term leases (note 12)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended March 31, 1974

1. Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies, which in Canada are: Soffit Systems Limited, Lightsteel-Gero Ltd., Alva-Craft Co. Ltd., Alberta Drywall Supply Ltd., Alberta Drywall Supply (Calgary) Ltd., Universal Builders Supply (1968) Ltd., Con-Tec Industries Ltd., and L & P Suppliers Limited; and in the United States are: Allsteel Rolled Products, Inc. and Universal Sections Inc.

Effective February 18, 1974, the operations of the subsidiary company Rothwell-Perrin Limited were discontinued and the company was placed in receivership by the secured creditors. All significant assets had been sold by March 31, 1974.

The loss from discontinued operations before extraordinary item related thereto as shown on the consolidated statement of income is comprised as follows:

Loss from operations for the period to February 18, 1974	$387,800
Reduction of loss arising on discontinuance of operations	236,805
	$150,995

The 1973 accounts of Rothwell-Perrin are fully consolidated on the balance sheet but the consolidated statements of income and source and application of funds for 1973 have been reclassified to disclose the loss from the discontinued company as a separate item.

2. Accounts Receivable

Included in accounts receivable are amounts due from 50% owned companies as follows:

	1974	1973
Foam-Form Canada Limited	$105,660	$123,024
Yardmaster Limited	45,695	
Professional Machine and Tool Company Limited		1,919
	$151,355	$124,943

3. Inventories

	1974	1973
Manufacturing		
Raw materials and supplies, at lower of cost and replacement cost	$2,215,232	$1,585,415
Finished goods, at lower of cost and net realizable value	2,178,305	1,779,905
	4,393,537	3,365,320
Model homes and machinery for resale, at cost		37,243
	$4,393,537	$3,402,563

4. Interest in 50% Owned Companies

The company accounts for its interest in the 50% owned companies Professional Machine and Tool Company Limited and Foam-Form Canada Limited on the equity basis.

As at March 31, 1974 Yardmaster Limited had not commenced active business operations and is carried at cost.

Notes Continued

During 1973, as partial settlement of advances, Foam-Form assigned to Universal accounts receivable arising from the sale of licences in connection with a patented foam form block. Universal has a right of recourse to Foam-Form if these accounts prove uncollectible.

Full collection of the licences receivable of $252,000 (1973, $336,000) and advances to Foam-Form of approximately $307,000 (1973, $270,000) are dependent upon the licencees achieving profitable operations. To date the licencees have paid all obligations when due under the terms of their agreements.

5. Fixed Assets

	1974			1973
	Cost	Accumulated depreciation	Net	Net
Land				$ 61,794
Buildings	$ 194,714	$ 76,839	$ 117,875	334,696
Machinery and equipment	3,743,111	2,240,710	1,502,401	1,403,565
Office and automotive equipment	494,813	312,617	182,196	202,108
	$4,432,638	$2,630,166	$1,802,472	$2,002,163

6. Patents and Licences

	1974			1973
	Cost	Amortization	Net	Net
Licences	$51,142		$51,142	$51,142
Patents	5,842	$2,213	3,629	3,973
	$56,984	$2,213	$54,771	$55,115

There is a commitment to pay approximately an additional $146,000 for licences, contingent upon satisfactory performance of certain equipment. If the equipment performance is not satisfactory, all monies paid to date, amounting to $51,142, are refundable.

7. Bank Advances

The bank advances are secured by pledge of book debts and in some cases inventory, and in one subsidiary by a demand debenture over that company's assets.

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are amounts due to 50% owned companies as follows:

	1974	1973
Professional Machine and Tool Company Limited	$178,031	$119,708
Foam-Form Canada Limited	5,000	
	$183,031	$119,708

Notes Continued

9. Long-Term Debt

	1974	1973
10-3/4% to 12-3/4% secured debenture payable in monthly instalments of $10,830 principal plus interest from July 1, 1974 to May 1, 1979 plus one payment of $650,200 June 1, 1979	$1,300,000	
Secured notes		
Secured by mortgage receivable, 11%, due June 11, 1976	85,000	
Secured by equipment, at rates from 7-1/2% to 8% payable in instalments to July, 1974	28,172	53,135
10%, due December 15, 1974		43,172
Conditional sales contracts at varying interest rates payable in instalments to May 1975		13,750
Unsecured notes payable, due in instalments up to 1975, of which $28,382 is interest-free, $3,423 (1973, $18,577) are at current bank rates and balance at 6% to 12% (1973, 6% to 10%)	738,295	551,780
Mortgages payable, 8% and 12%		194,000
	$2,151,467	$855,837
Less principal included in current liabilities	181,894	120,655
	$1,969,573	$735,182

Included in unsecured notes payable are liabilities to shareholders of $71,096 (1973, $97,030)

Debenture Payable

Prior to the year end the company entered into a $1,300,000 debenture financing agreement including warrants to purchase shares (note 10). The proceeds, received subsequent to the year end, were used for working capital and accordingly the amount due from this debenture has been included in current assets. The debenture is secured by the following assets of Universal Sections Limited and Lightsteel-Gero Ltd.; namely, a first charge on all equipment, a mortgage on certain leasehold interests and a floating charge on the remaining assets. Restrictions are placed on consolidated working capital, consolidated debt and the granting of guarantees by the company.

The declaration of dividends is prohibited if the company is in contravention of any terms of the debenture. In addition, a major shareholder is required to maintain ownership of a stipulated percentage of the voting shares of the company.

10. Capital Stock

During the year the company issued 871 shares under the employee stock option plan for $6,424 cash.

As at March 31, 1974 the following options were outstanding.

	Number of shares
(a) Employee stock option plan at a price of $7.375 per share until June 1, 1975 (revised to $4.275 on April 30, 1974)	14,099
(b) Warrants issued to debenture holder (note 9) at a price of $7.50 per share until June 1, 1979	22,000
	36,099

The above share options have no significant effect on fully diluted earnings per share.

Notes Continued

11. Contingent Liabilities

The company has guaranteed bank loans of 50% owned companies to a maximum of $227,000. The loans outstanding at March 31, 1974 amounted to $222,000.

The company has also guaranteed a promissory note and equipment lease for 50% owned companies aggregating approximately $191,500 at March 31, 1974.

12. Long Term Leases

Property	Expiry	Annual Rental
Land and buildings	June, 1991	$ 54,441
Land and buildings	October, 1993	48,000
Land and buildings	October, 1988	42,000
Production machinery and office equipment	May, 1975 to January, 1978	61,064
Land and buildings	November 14, 1992	103,500
Land and buildings	June 30, 1983	25,600

13. Other Statutory Information

Remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to $272,800 (1973, $137,800).

AUDITORS' REPORT

To the Shareholders of Universal Sections Limited

We have examined the consolidated balance sheet of Universal Sections Limited and subsidiary companies as at March 31, 1974 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of Universal Sections Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of other auditors for purposes of consolidation.

In our opinion subject to the collectibility of amounts receivable as set out in note 4, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Toronto, Canada
July 12, 1974

CONSOLIDATED FIVE YEAR SUMMARY (in thousands of dollars)

	1974	1973	1972	1971	1970
Sales*	$25,270	$21,763	$20,901	$16,615	$19,350
Income from continuing operations before equity in 50% owned companies*	653	433	201	(362)	177
Income before extraordinary items	446	386	150	(363)	207
Net income for year	412	519	384	(363)	231
Cash Flow from operations	1,284	903	706	61	707
Working Capital	2,517	360	374	197	977
Investments	782	637	308	388	335
Fixed Assets — Net	1,802	2,002	1,995	2,644	2,400
Other Assets	681	989	915	837	766
Total Net Assets	5,782	3,988	3,592	4,066	4,478
Less: Long-term debt	1,970	736	833	1,543	1,570
Deferred Income Tax	490	275	339	283	340
Minority Interest		74	78	78	78
Shareholders' Equity	3,322	2,903	2,342	2,162	2,490
Per Share:					
Income from continuing operations before equity in 50% owned companies*	$ 1.40	$ .94	$ .44	$(.78)	$ .39
Income before extraordinary items	$ .95	$ .84	$ .32	$(.78)	$ .45
Net Income	$ .88	$ 1.12	$ .83	$(.78)	$ .51
Cash Flow from operations	$ 2.74	$ 1.93	$ 1.53	$ .13	$ 1.55
Shareholders' Equity	$ 7.10	$ 6.22	$ 5.08	$ 4.69	$ 5.46
Net Income Return on Equity %	14.2	22.0	17.7	—	9.8

*The 1970 to 1972 figures include the results of the discontinued subsidiary.